

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Murray Analyst: Marion Mann DeJong Bill Number: SB 1750
Related Bills: See Legislative History Telephone: 845-6979 Introduced Date: 02/23/2000
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: FTB Submit Five-Year Plan to the Legislature by January 1, 2002, for Electronic Filing and Electronic Payment of All Taxes Collected by FTB

SUMMARY

This bill would require the Franchise Tax Board (FTB) to submit a five-year plan for electronic filing of returns and electronic payment of taxes to the Legislature by January 1, 2002.

This bill also would (1) authorize the Department of Information Technology to provide for a single Internet portal to state government services and (2) require the Information Technology Innovation Council to report annually to the Legislature on its plan for and progress on creating a California electronic government.

Only the provision directly impacting FTB will be discussed in this analysis.

EFFECTIVE DATE

This bill would become effective on January 1, 2001.

LEGISLATIVE HISTORY

AB 1633 (1997/98), among other things, would have declared the intent of the Legislature that, by year 2007, 80% of all returns should be filed electronically. In addition, it would have required FTB to include in its annual report to the Legislature both the department's progress of achieving the goal and the legislative changes necessary to assist in meeting the goal. AB 1633 was held in the Assembly Appropriations Committee.

SPECIFIC FINDINGS

FTB has long recognized the benefit and the opportunities for improved service and reduced costs that technology and the electronic media can provide. FTB has been aggressively pursuing methods to assist electronic filing and electronic payment of taxes. FTB's vision for increased electronic services, including electronic filing and payment of taxes, are described in Filing 2010, The Future of State Income Tax Filing, a publication dated April 15, 1995. Department staff is currently revising and updating the department's vision, goals and objectives outlined in Filing 2010.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

Date

Alan Hunter for GHG

3/29/00

The following are brief descriptions and histories of the electronic services available to taxpayers.

- Ⓟ E-file (electronic filing) is the paperless way to file personal income tax (PIT) returns via computer. E-file accepts refund or balance due Forms 540, 540A, 540EZ, 540-2EZ and 540NR and 33 other supporting forms and schedules. Taxpayers must use the services of a third party electronic return originator to transmit the return for FTB. FTB has been accepting e-filed returns since 1994 and projects receiving 2 million e-filed returns during 2000 (1999 tax year returns).
- Ⓟ Telefile permits filing PIT returns using a touch tone phone. Only taxpayers selected by FTB may use Telefile. FTB selects these taxpayers by looking at the taxpayer's previous year return. If the taxpayer meets specified requirements (basically the Form 540EZ filing requirements), a Telefile booklet that contains Telefile instructions is sent to the taxpayer. Telefile was implemented as a pilot project in 1996 and was expanded to selected Form 540EZ filers in 1997. This equates to a universe of approximately 1.8 million taxpayers.
- Ⓟ Direct deposit is the paperless way to receive a PIT refund from an e-file, Telefile or paper return. Direct deposit allows taxpayers to request that their refund be electronically deposited into their checking or savings account. Direct deposit was implemented in 1998 as a pilot for e-file returns only. In 1999, direct deposit was expanded to include Telefile returns. This year, direct deposit was expanded to include paper returns.
- Ⓟ E-pay (electronic payments/automatic withdrawal) is the paperless way to pay PIT taxes. E-pay allows PIT taxpayers to authorize FTB to transfer money from their bank account to FTB's bank account on a specified day. E-pay was implemented in 1999 for 1998 e-file returns. This year, e-pay was expanded to include Telefile returns.
- Ⓟ The Credit Card Project allows PIT taxpayers to use their Discover/NOVUS, MasterCard and American Express credit cards to pay PIT estimate payments, extensions and amounts due on current, previous and prior year tax liabilities. The taxpayer pays a convenience fee to Official Payments Corporation for this service. The Credit Card Project was implemented as a pilot in January 1999. On August 16, 1999, the credit card payment option was expanded to include PIT estimate payments. This year, the credit card program was expanded to include extension and current year liability payments.
- Ⓟ Partnerships may file Schedule K-1 (565) on a CD, diskette, tape cartridge, or magnetic tape reel. The program is voluntary, benefiting both partnerships and FTB, as the participating partnerships may have up to 80,000 partners. FTB began processing Schedules K-1 (565) via magnetic media in 1996.
- Ⓟ EFT (electronic funds transfer) is a method for instructing financial institutions to transfer funds electronically and is required for bank and corporation (B&C) taxpayers making estimate or extension payments greater than \$20,000 or with a total tax liability greater than \$80,000. Once a taxpayer meets these thresholds, all payments must be made via EFT. B&C taxpayers with smaller payments may participate voluntarily. PIT taxpayers and PIT child support debtors may participate via EFT installment agreements. The EFT program was implemented for B&C taxpayers in 1993. In 1997, EFT was expanded to PIT taxpayers and child support debtors who enter

into EFT installment agreements. Employer and financial institution levy transfers were also added.

- Ⓟ The FTB website, www.ftb.ca.gov, provides taxpayers with tax information, filing and payment options and other helpful information. From the website taxpayers can download, view and print California and federal tax forms, check on refund information, find answers to tax questions and send email to the Executive Officer.
- Ⓟ In recognition of the need and demand for direct Internet filing by taxpayers, the Franchise Tax Board recently directed department staff to proceed with the development of a direct filing portal (DFP). The DFP would allow taxpayers to transmit a completed return directly to FTB instead of via a third party electronic return originator. This project is scheduled for implementation by January 1, 2001.

This bill would require FTB to submit a five-year plan regarding electronic filing and electronic payments of tax to the Legislature by January 1, 2002.

Implementation Considerations

This bill would raise the following implementation considerations. Department staff will work with the author to resolve these concerns.

- Ⓟ Department staff is currently developing a direct filing portal (DFP) to allow taxpayers to transmit electronic returns directly to FTB. It is unclear how the single Internet portal to state government services required by this bill would impact the department's DFP.
- Ⓟ This bill requires the department to develop a plan for receiving all tax returns electronically. The department currently accepts PIT returns electronically and is working with the tax software industry to create e-file for partnerships and corporations. However, the technology for filing all returns electronically may not be available within the five-year time frame prescribed by this bill.

LEGISLATIVELY MANDATED REPORTS

This bill would require FTB to submit to the Legislature by January 1, 2002, a five-year plan regarding electronic filing and electronic payments of all taxes the department administers.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

This bill would not impact income tax liabilities and therefore would not impact income tax revenues.

BOARD POSITION

Pending.